

**THE SOUTH CAROLINA OFFICE  
OF REGULATORY STAFF'S  
RESPONSE TO THE PUBLIC SERVICE  
COMMISSION OF SOUTH CAROLINA'S  
ORDER NO: 2020-39-H**

**DOCKET NO: 2019-290-WS**

**1. WHAT, IF ANY PROCUREMENT PROCEDURES DID BLUE GRANITE WATER COMPANY ("BLUE GRANITE") FOLLOW PRIOR TO SIGNING THE CONTRACT WITH CLEARWATER SOLUTIONS, LLC?**

A review of the record in this case indicates the following response provided by Blue Granite witness **DeStefano** during the hearing:

"I was not directly involved in that process. My understanding is that the company had experience with ClearWater providing a contract -- operator work -- previously on a temporary basis and, in negotiations, came to an agreement on a contract for this -- operating the system." (Tr. 860 lines 11-16)

In its Request for Approval of the Contract filed in this docket on April 17, 2017, Blue Granite stated "the Agreement was negotiated at arm's length between Blue Granite and ClearWater, and the arrangement resulted in a net savings to customers..."

Witness **Mendenhall** testified he was not aware of any common ownership or affiliation between ClearWater Solutions, Blue Granite, or Corix and that he was not aware of ClearWater performing work for any other Blue Granite affiliate or any Corix affiliate. (Tr. 457, ll. 7-25.) Witness **DeStefano** testified the contract with ClearWater would result in a net savings to customers of approximately \$168,000 annually. (Tr. 860 l. 24 to 861 l. 8; Tr. 874 l. 25 to 875 l. 2.)

To meet the requested deadline, ORS is providing information in its possession from and in the record of this docket. If the Commission desires additional information, a supplemental response to this question would be based on additional discovery and information beyond the record. ORS would respectfully request an additional 14 days to conduct such discovery.

**2. WERE BIDS TAKEN? IF SO, WHY WAS CLEARWATER SOLUTIONS, LLC CHOSEN?**

When asked at the hearing, various Blue Granite witnesses responded to questions as follows:

Witness **Mendenhall**:

“I would defer to Mr. DeStefano on contract matters, Commissioner.” (Tr. 433 lines 10-14)

Witness **DeStefano**:

“I'm not aware if it was put out for bid.” (Tr. 860 line 18)

“As I've said, I'm not aware of whether there was a bid for this -- for these services.” (Tr. 862 lines 8-9)

When asked who would know whether the contract was bid, witness **DeStefano** stated:

“Either my predecessor in the finance department or Ms. Heigel, who is Don Denton's predecessor.” (Tr. 862 lines 11-12).

If the Commission desires additional information, a supplemental response to this question would be based on additional discovery and information beyond the record. ORS would respectfully request an additional 14 days to conduct such discovery.

**3. IF BIDS WERE TAKEN, WHAT OTHER COMPANIES BID? WHY WAS IT DECIDED THAT CLEARWATER SOLUTIONS, LLC WAS THE BEST COMPANY TO CHOOSE WITH REGARD TO A) THE RATEPAYERS? B) THE SHAREHOLDERS?**

Based on testimony by Blue Granite's witnesses, it is unclear if Blue Granite requested or accepted bids for the operations of the Midlands area systems.

Witness **Denton** testified that

“In attempting to improve its operations in the Midlands in a tight labor market, the Company made the management decision to enter into a contract with ClearWater Solutions, LLC to provide the labor to manage, operate, and maintain the Company's water and wastewater treatment facilities in the Midlands area.” (Tr. 362.12, ll. 12-15.)

The Company indicated in the April 17, 2020 filing with the Commission “[t]he contract with ClearWater was a product of Blue Granite's unique need for a specialized labor supply in the Midlands Region and ClearWater's unique ability to meet that need.”

The net savings resulting from the contract with ClearWater Solutions is a benefit to the ratepayers.

If the Commission desires additional information, a supplemental response to this question would be based on additional discovery and information beyond the record. ORS would respectfully request an additional 14 days to conduct such discovery.

**4. EXACTLY WHAT COSTS ARE NO LONGER BEING INCURRED BY BLUE GRANITE BECAUSE OF THE CONTRACT WITH CLEARWATER SOLUTIONS, LLC?**

Witness **DeStefano** indicated that the general savings was from labor, as he stated:

“With adjustments and corrections identified by ORS to some of our numbers in the filing, that number has changed to \$168,000 of -- of -- of net savings. And a lot of that, I believe, is on the personnel side. A lot of the costs that are included in the ClearWater agreement are labor, you know, maintenance type -- you know, labor-type work. So the general savings was -- was on the labor side. (Tr. 950 lines 15-23)

Additional direct costs that are no longer incurred by Blue Granite include maintenance and repair, maintenance testing, meter reading, chemicals, transportation, lawn care, reduction in gross plant (e.g., vehicles), and other reduced costs that result from the reduction in gross plant (e.g., depreciation, property taxes, rate base). These costs are explained in the direct testimony of witness **Briseno**. (Tr. 1128) ORS found and removed any direct costs for which the Company sought separate recovery involving services covered by the ClearWater contract. (See Tr. p. 1125, ll. 2-12.)

**5. ARE THE OVERALL COSTS INCURRED BY BLUE GRANITE HIGHER, LOWER, OR APPROXIMATELY THE SAME AS THE COSTS THAT BLUE GRANITE INCURRED PRIOR TO SIGNING THE CONTRACT WITH CLEARWATER SOLUTIONS, LLC? PLEASE EXPLAIN. COULD BLUE GRANITE PROVIDE SERVICES IN A LESS EXPENSIVE MANNER IF IT PROVIDED THE SERVICES ITSELF, RATHER THAN HAVING CLEARWATER SOLUTIONS, LLC PROVIDE THE SERVICES?**

Witness **DeStefano** noted on several occasions during the Hearing that the contract with ClearWater would result in a net savings to customers of approximately \$168,000 annually. (Tr. 860 l. 24 to 861 l. 8; Tr. 874 l. 25 to 875 l. 2.) Specifically, he stated the following:

“The Company entered into a contract operator agreement with ClearWater Solutions effective September 1, 2019, after the end of the Test Year for this case. As the contract with ClearWater Solutions covers most operating and maintenance expenses for the Midlands area previously performed by Company employees and other vendors, the Company removed such activity from various expense accounts in the Test Year totals and included the ClearWater Solutions contract costs per the agreement. This results in a net savings in the revenue requirement within O&M that by reflecting the ongoing expense levels expected to be incurred.” (Tr. 763.18 lines 5-12)

“The company . . . has contracted with ClearWater in an effort to stabilize the operations of this system, and it also has generated -- with the contract, has generated savings for its customers, compared to its historical levels of -- of

expenses for operating this system. And that's incorporated in this case in the savings that are being passed through in this case.” (Tr. 789 lines 11-19)

“Again, the costs that the company is paying to operate this system are lower than its historic- going expenses to operate this system, and this agreement has generated savings in this case for customers.” (Tr. 790 lines 15-19)

“I can say that, for the ClearWater agreement, it was submitted during the course of this case, viewed by ORS. The costs related to it and the costs that it replaced effectively for the company were reviewed by ORS and, again, that contract in net is saving customers money.” (Tr. 857 lines 1-7)

“From what I can -- what I can see, the costs related to that contract and the costs that the company was incurring previously was the general comparison that the company made. And based on the adjustments the company included in the rate case -- and ORS then made some further adjustments in the rate case -- the net savings to customers from this contract from the previous state, which was the primary alternative the company considered, was -- is about \$168,000 annually.” (Tr. 860 line 24 - 861 line 8)

“As I mentioned, the -- the ClearWater service agreement is generating about \$168,000 of annual savings in this case.” (Tr. 874 line 25 - 875 line 2)

Blue Granite appears to be evaluating its ability to provide these operation and maintenance services at lower cost by providing the services itself, as witness **Mendenhall** stated:

“At this point, the Company’s long-term plan is to replace ClearWater Solutions with in-house operators, and we continue to work towards that goal.” (Tr. 362.13 lines 1-2)

If the Commission desires additional information, a supplemental response to this question would be based on additional discovery and information beyond the record. ORS would respectfully request an additional 14 days to conduct such discovery.

**6. WHAT SERVICE AREAS IN BLUE GRANITE’S SERVICE TERRITORIES ARE BEING SERVED BY CLEARWATER SOLUTIONS, LLC RATHER THAN BLUE GRANITE ITSELF? DID ORS REVIEW HOW THESE COST CHANGES BREAK DOWN BY SERVICE AREA? IF SO, WERE THERE ANY AREAS OF CONCERN?**

The ClearWater Solutions contract covers the Midlands Region as described in Appendix B of Blue Granite’s Late-Filed Exhibit No. 4. Appendix B of Late-Filed Exhibit No. 4 lists the service areas (i.e., subdivisions) that make up Blue Granite’s Midlands Region water and wastewater systems. According to Appendix B of Late-Filed Exhibit No. 4, Blue Granite’s Midlands Region consists of:

“63 water wells and 570,473 LF of water lines that serve 7,088 water customers; and 115,500 LF of force mains, three (3) wastewater treatment plants, 49 lift stations, and 777,660 LF of gravity sewer lines that serve 6,005 sewer customers.”

The costs associated with ClearWater Solutions are recorded as expenses and allocated to all BGWC customers. ORS did not make an adjustment to remove the expense attributed to the ClearWater Solutions contract.

**7. WHAT WAS THE DECISION PROCESS THAT LED TO BLUE GRANITE DECIDING TO USE A THIRD-PARTY COMPANY TO SERVICE CERTAIN AREAS OF THEIR SERVICE TERRITORIES? ARE THERE BOARD MEETING MINUTES THAT EXPLAIN THE DECISION-MAKING PROCESS? IS THERE AN ANALYSIS OF THE STATE OF THE COMPANY’S FACILITIES IN AREAS SUBSEQUENTLY SERVED BY CLEARWATER SOLUTIONS, LLC?**

Company witnesses testified that labor supply issues led to the decision to use a third-party company to service certain areas of their services territories. Specifically, witnesses stated the following:

Witness **Denton**:

“Attracting talent in the Columbia market has been extremely difficult due to the legacy brand issues in that market. This experience is further discussed in Company Witness Mendenhall’s direct testimony as it relates to the Company’s decision to outsource its Midlands operations to Clearwater Solutions.” (Tr. 355.6 lines 5-9)

Witness **Mendenhall**:

“In attempting to improve its operations in the Midlands in a tight labor market, the Company made the management decision to enter into a contract with ClearWater Solutions, LLC to provide the labor to manage, operate, and maintain the Company’s water and wastewater treatment facilities in the Midlands area.” (Tr. 362.12 lines 12-15)

Witness **DeStefano**:

“My understanding of it is the company was struggling to identify licensed operators and employ licensed operators to sufficiently serve customers in that system and that ClearWater was able to provide those services under -- on a contract basis.” (Tr. 857 line 21 - 858 line 1)

“The company had vacancies that weren't being filled -- or weren't able to be filled leading up to the discussions with ClearWater to utilize them as a contract operator.” (Tr. 858 lines 16-19)

Witness **DeStefano** also testified that the Company generally compared the cost of the contract against the cost of performance to Blue Granite:

“From what I can -- what I can see, the costs related to that contract and the costs that the company was incurring previously was the general comparison that the company made. And based on the adjustments the company included in the rate case -- and ORS then made some further adjustments in the rate case -- the net savings to customers from this contract from the previous state, which was the primary alternative the company considered, was -- is about \$168,000 annually.” (Tr. 860 line 24 - 861 line 8)

ORS does not currently have additional responsive information. If the Commission desires additional information, a supplemental response to this question would be based on additional discovery and information beyond the record. ORS would respectfully request an additional 14 days to conduct such discovery.

**8. IS THE PRICE THAT CLEARWATER SOLUTIONS, LLC CHARGES BLUE GRANITE FOR ITS SERVICES EQUAL TO THE FAIR MARKET VALUE IN YOUR OPINION? WHAT ANALYSIS WAS PERFORMED TO CONFIRM THIS?**

Fair market value for any contract service would typically be quantified through a competitive bid process for said contract service. Nonetheless, the contract resulted in a net savings for customers and ORS did not propose an adjustment to the ClearWater Solutions contract expenses.

When asked about the reasonableness of the ClearWater charges, witness **Mendenhall** stated:

“My answer would be it's through the same process that we're going through now: that the Commission would review our expenditures to make sure that they're prudent and in line with the needs of our customers.” (Tr. 376 lines 8-22)

“Once again, through either request of ORS or through the actual Commission itself.” (Tr. 376 lines 21-22)

**9. DOES ORS HAVE AN OPINION ON THE SUFFICIENCY OF CLEARWATER SOLUTIONS, LLC'S INVOICES REVIEWED IN THE COURSE OF THE RATE CASE IN DOCKET 2019-290-WS OR THEREAFTER?**

ORS reviewed three (3) ClearWater invoices provided by Blue Granite. Two of the invoices are discussed in witness **Briseno's** direct testimony (Tr. 1128.5 lines 20-21). ORS made an adjustment to disallow the two ClearWater solutions invoices witness Briseno discussed for reasons unrelated to the sufficiency of information contained on the invoices. ORS did not object to the information contained on any of the three invoices.